



Tax Preparer Fees and “Tax Time” Financial Products

From the Office of Minnesota Attorney General Keith Ellison

Many Americans use tax preparers to file their taxes. In 2017, for example, just under 79 million Americans paid tax preparers to file returns. Over \$323 billion was issued in tax refunds for 2017 with an average refund of \$2,895.

For years, many tax preparers made money by selling financial products that take fees and interest from anticipated refunds. Until 2012, banks would partner with preparers to sell short-term, high-interest refund anticipation loans (RALs), which were repaid from anticipated refunds. RALs were often sold based on misleading tactics. In 2002, nearly 13 million Americans paid more than \$1 billion in fees for RALs.

Regulators eventually cracked down on the practice, however, and banks stopped offering RALs between 2009 and 2012. Since then, tax preparers and financial firms have looked to fill the gap through a number of expensive services that prevent consumers from getting full tax refunds.

If you are considering using a tax preparer, you should learn as much as you can about the preparer and the services offered before you purchase.

Refund Anticipation Checks or “Refund Transfers”

After the crackdown on RALs, tax preparers shifted to refund anticipation checks” (RACs). With RACs, a bank affiliated with the preparer opens up a temporary account into which the customer’s refund will be deposited. When the refund arrives, the bank deducts preparer fees and add-on charges, issues a check or prepaid debit card to the consumer for the remaining balance, and closes the account. In some instances, customers incur additional fees to cash the check or find hidden terms and conditions with using the debit card. About 20.5 million taxpayers obtained an RAC in 2017, paying at least \$500 million for such products.

RACs raise concerns because customers who use them would have received their refunds in the same amount of time without the RAC, only they would have avoided paying RAC fees if they direct deposited their refunds into their own bank accounts. For this reason, consumers who do not have bank accounts should consider opening one to speed receipt of their refunds and avoid check-cashing fees. Taxpayers with debit cards and payroll cards can also have refunds deposited into those accounts.

THE BOTTOM LINE. Don’t use RACs. If you have to use a paid tax preparer, try to pay the fee up front and have your refund direct deposited into your own bank account.

“Free” Tax Refund Advances or “No Fee” RALs

Since 2016, preparers have partnered with banks to again offer RALs, but this time without fees or interest. Preparers offer these services to lure in customers who now have cheaper options for tax preparation (including internet filing and discounted preparation services).

The problem, however, is that preparers may use such “no fee” RALs to attract customers who do not need their services, charge higher rates to account for the cost of the RALs, and rope the customer into purchasing unnecessary add-on services. This is especially concerning because preparers’ prices are often unclear and can be highly variable. Consumers also may not know if they even qualify for a refund and the RAL until their filing is prepared, leaving them stuck with an expensive fee without a refund.

THE BOTTOM LINE. Consider cheaper or discounted options for filing your taxes, as well as the IRS’s direct-deposit options if you need to

receive your refund quickly. If you must use a preparer who offers a free tax-refund advance, find out the full price of the preparation service, shop around, and avoid paying for unnecessary charges or add-ons that will reduce your refund.

Non-Bank RALs

Traditional high-interest RALs may no longer be offered by banks, but they are still sold by other institutions like payday lenders and cash-advance companies. For these loans, all of the abuses that plagued RALs in the past still exist. Hidden fees and high interest mean that customers receive far less than what they are entitled to from their tax refund. Also, if a tax refund ends up being less than the loan amount, the consumer has to repay the difference plus fees and fines.

Some companies try to disguise high-interest RALs as “buying” refunds. These companies pay the customer a portion of their expected refund immediately and, in exchange, take the full amount for themselves when the refund arrives. Advertised as “buying” the refund, the service is the same as an RAL: the customer hands over their right to an anticipated refund in exchange for a much smaller lump sum of cash right away, and the cost or interest incurred is often very high.

Another problem is that companies purporting to offer RALs do not actually intend to provide them. Rules and restrictions on RALs mean that few customers may actually be approved, and customers will not know if they are approved until after they have their taxes prepared. Once consumers find out they do not qualify for the RAL, they already owe money to the preparer.

THE BOTTOM LINE. Don't pay to borrow your own money. If a preparer is offering to “buy” your refund or a check casher or payday lender is offering an “instant refund,” you will likely be charged high fees and interest that will prevent you from receiving your full refund.

“Tax Time” Credit Lines

Preparers also may offer loans or credit lines before taxpayers receive W-2 forms in anticipation of a refund to pay down the loan. These credit lines up often run up to around \$1,000 and can carry high fees and interest rates. An interest rate of 36%, which is typical for this kind of loan, would leave a borrower owing about \$80 for a 15-day loan of \$2,000.

Preparers may also offer to put consumers’ refunds on debit cards that they issue. These debit cards, however, often include hidden fees and can limit how much money consumers may access at a given time.

THE BOTTOM LINE. It is generally best to avoid any financial product offered by a tax preparer because there is usually a catch involving high fees or interest.

Things to Consider Before Hiring a Tax Preparer

Because of the high variable costs for tax-preparation services, and the potential for abuses and unnecessary fees, consumers should carefully review their options before hiring a preparer.

Look into Free or Reduced-Filing Services. The IRS’s “Free File” service allows taxpayers with income of \$66,000 or less to use brand-name filing software to file electronically for free. Taxpayers who earn more than \$66,000 can use Free File Fillable Forms. Some companies offer free state tax-return filing as well.

The IRS offers free tax help through its Volunteer Income Tax Assistance (VITA) program to people who generally make \$54,000 or less, persons with disabilities, and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. The Tax Counseling for the Elderly (TCE) program also offers free tax help for all taxpayers, particularly those who are 60 years of age and older,

specializing in questions about pensions and retirement-related issues unique to seniors. The IRS-certified volunteers who provide tax counseling are often retired individuals associated with non-profit organizations that receive grants from the IRS. You can learn more about the VITA and TCE programs, and find VITA and TCE sites near you, by visiting the following web address or phone number:

www.irs.gov/individuals/free-tax-return-preparation-for-you-by-volunteers
(800) 906-9887

You can also contact the IRS with questions as follows:

Internal Revenue Service

(800) 829-1040
(800) 829-4059 (TDD)
www.irs.gov

There are also volunteer tax assistants in Minnesota who offer free tax help to seniors, people with low incomes or disabilities, and non-English speakers. To find a volunteer near you, contact:

Minnesota Department of Revenue

(651) 296-3781
(800) 652-9094
www.revenue.state.mn.us

Consider E-Filing and IRS Direct Deposit

The best and fastest way to get your refund is to have it electronically deposited for free into your financial account by the IRS. IRS issues more than 9 out of 10 refunds in less than 21 days, and you can track your refund online.

Ask Questions Before Hiring a Tax Preparer

If you feel you need to hire a tax preparer, be sure to shop around. Ask about their education and experience. Insist that they explain the basis for each portion of their fee. Find out if they are affiliated with a professional organization that provides or requires its members to pursue continuing education and holds them accountable to a code of ethics. Make sure that they are registered with the IRS, and will sign your return as required by law. If they offer a “no fee” advance on your refund, make sure you fully understand the terms and the price of the other services before signing up.

Contact Us To File a Complaint.

You may contact the Attorney General’s Office for more information or to file a complaint at the contact information below:

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